

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES  
NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature	Printed Name		License Number	

LOCH ALPINE SANITARY AUTHORITY  
OF WEBSTER AND SCIO TOWNSHIPS

REPORT ON AUDIT OF  
FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

BOARD OF TRUSTEES

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AUTHORITY ATTORNEY

Reading, Etter & Lillich

AUTHORITY AUDITORS

Pfeffer, Hanniford & Palka  
Certified Public Accountants

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**PFEFFER ■ HANNIFORD ■ PALKA**  
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October 30, 2006

Board of Trustees  
Loch Alpine Sanitary Authority of  
Webster and Scio Townships  
827 North Zeeb Road  
Ann Arbor, Michigan 48103

INDEPENDENT AUDITORS' REPORT

Honorable Board of Trustees:

We have audited the accompanying financial statements of the Loch Alpine Sanitary Authority of Webster and Scio Townships as of and for the year ended June 30, 2006. These financial statements are the responsibility of the Authority Board. Our responsibility is to express an opinion on these financial statements based on the audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the government activities of the Loch Alpine Sanitary Authority of Webster and Scio Townships, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year end in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 6 through 9 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Loch Alpine Sanitary Authority of Webster and Scio Townships' basic financial statements. The Supplementary Information presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information have not been subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on them.

*Pfeffer, Hanniford & Palka, P.C.*

PFEFFER, HANNIFORD & PALKA  
Certified Public Accountants

MANAGEMENT  
DISCUSSION  
AND ANALYSIS

Within this section of the Loch Alpine Sanitary Authority of Webster and Scio Townships' financial report, the Authority's management provides a narrative discussion and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2006. This narrative discusses and analyzes the activity within the context of the financial statements and disclosures which follow this section. [The discussion focuses on the Authority's primary government. Unless otherwise noted, the financial activities of component units are reported separately from the primary government].

#### Overview of the Financial Statements

Management's Discussion and Analysis introduces the Authority's financial statements. The financial statements include all the statements required by the Governmental Accounting Standards Board (and the notes to the financial statements). The Authority also includes in this report additional information to supplement the basic financial statements.

#### ***Government-wide Financial Statements***

The Authority's annual report includes two Authority-wide financial statements. These statements provide both long-term and short-term information about the Authority's overall status. Financial reporting at this level uses a perspective similar to that used in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these statements is the Statement of Net Assets. This is the Authority-wide statement of position presenting information that includes all the Authority's total assets and liabilities the difference reported as net assets. An increasing or decreasing trend in net assets candidate whether the health of the authority is improving or deteriorating. However, one must also consider non-financial factors when determining the health of any entity.

The second government-wide statement is the Statement of Revenues, Expenses and Changes in Net Assets which reports how the Authority's net assets changed during the current fiscal year. This statement shows the financial reliance of the Authority's distinct activities or functions on the revenues generated by the Authority.

The Authority's financial reporting includes all the funds of the Authority (primary government) and, additionally, organizations for which the Authority is accountable (component units). Since the Authority's sole purpose is to operate and manage a water and sewer system, It maintains only one fund, thus it prepares no fund financial statements.

#### ***Notes to the financial statements***

The accompanying notes to the financial statements provide information essential to a full understanding of the financial statements.

#### ***Other information***

In addition to the financial statements and accompanying notes, this report also presents certain supplementary information. Other supplementary information includes a budget to actual reconciliation for current year Authority operations.

### Financial Analysis of the Authority as a Whole

The Authority's net assets at the end of the fiscal year were \$2,402,262. This is a \$86,874 increase over last year's net assets of \$2,315,388.

The following tables provide a summary of the Authority's financial activities and changes in net assets:

#### **Summary of Net Assets**

	<u>6/30/2005</u>	<u>6/30/2006</u>
Current and other assets	\$ 1,249,774	\$ 1,149,672
Capital assets, net	1,081,223	1,268,985
Total assets	<u>2,330,997</u>	<u>2,418,657</u>
Accounts payable	8,509	8,295
Deposits	7,100	8,100
Total liabilities	<u>15,609</u>	<u>16,395</u>
Net assets:		
Invested in capital assets, net of related debt	1,081,223	1,268,985
Unrestricted	1,234,165	1,133,277
Total net assets	<u>\$ 2,315,388</u>	<u>\$ 2,402,262</u>

Revenues from operations decreased by 2% from the prior fiscal year while operating expenses increased by 8%.

As a result, net income decreased from \$99,410 for the year ended June 30, 2005 to \$86,874 for the year ended June 30, 2006. Additionally, a total of \$244,452 was spent on acquiring and improving the Authority's capital assets.



### Summary of Changes in Net Assets

	<u>6/30/2005</u>	<u>06/30/2006</u>
Operating revenues	<u>\$ 443,675</u>	<u>\$ 433,834</u>
Operating expenses		
General	205,067	227,823
Sewer	97,381	111,518
Water	68,429	66,590
Total operating expenses	<u>370,877</u>	<u>405,931</u>
Operating income	72,798	27,903
Non-operating revenues		
Interest income	<u>18,237</u>	<u>30,846</u>
Net income before capital contributions	91,035	58,749
Capital contributions		
Connection fees	<u>8,375</u>	<u>28,125</u>
Change in net assets	99,410	86,874
Beginning net assets	<u>2,215,978</u>	<u>2,315,388</u>
Ending net assets	<u><u>\$ 2,315,388</u></u>	<u><u>\$ 2,402,262</u></u>

### Capital and Debt Administration

As of June 30, 2006, the Authority did not have any outstanding long-term debt in the form of bonds or loans payable.

The Authority spent \$244,452 on acquiring capital assets including \$33,500 for a generator system, \$196,150 for sewer pipe improvements, and \$14,802 for various other capital asset acquisitions.

### Economic Factors and Next Year's Goals

The Authority's financial outlook remains strong. The population in the service area is expected to remain constant or to slowly increase to slowly rising, (with two new users added during the fiscal year). Nearly one-half of the authority's net assets are in cash or marketable securities. Further, the Authority is unencumbered by debt.

The Authority faces future difficulties, as well. Rising energy and fuel costs pose challenges to both the Authority and its customers. During this fiscal year, the Authority's electrical and heating costs increased by nearly 14% from the prior year. If such trends continue, these costs could be passed on to customers, who are also enduring higher energy costs.

### Contacting the Authority's Financial Management

This report is designed to provide a general overview of the Authority's financial position and comply with finance-related regulations. If you have further questions about this report or request for additional information, please contact the Authority at 827 North Zeeb Road, Ann Arbor, Michigan 48103.

BASIC  
FINANCIAL  
STATEMENTS

LOCH ALPINE SANITARY AUTHORITY  
OF WEBSTER AND SCIO TOWNSHIPS  
STATEMENT OF NET ASSETS  
JUNE 30, 2006

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 994,167
Accounts receivable	125,520
Prepaid expenses	<u>29,985</u>

Total current assets		\$ 1,149,672
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CAPITAL ASSETS

Land	23,500
Office equipment	9,343
Equipment	194,059
Water and sewer system	1,110,761
Iron removal plant	643,423
Construction in progress	<u>14,338</u>
	1,995,424
Less accumulated depreciation	<u>(726,439)</u>

Capital assets, net		<u>1,268,985</u>
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Total assets		2,418,657
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LIABILITIES

CURRENT LIABILITIES

Account payable	\$ 8,295
Deposits	<u>8,100</u>

Total liabilities		<u>\$ 16,395</u>
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NET ASSETS

NET ASSETS

Invested in capital assets	1,268,985
Unrestricted	<u>1,133,277</u>

Total net assets		<u><u>\$ 2,402,262</u></u>
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The notes are an integral part of the financial statements.

LOCH ALPINE SANITARY AUTHORITY  
OF WEBSTER AND SCIO TOWNSHIPS  
STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2006

OPERATING REVENUES		
Water and sewer billings	\$ 431,569	
Other charges for services	<u>2,265</u>	
Total operating revenues		\$ 433,834
OPERATING EXPENSES		
GENERAL		
Management services	\$ 123,000	
Administration expenses	13,413	
Office supplies	1,874	
Printing and advertising	595	
Legal fees	6,544	
Postage and freight	992	
Audit fees	5,075	
Consulting fees	14,055	
Accounting services	15,795	
Insurance	35,982	
Repairs and maintenance	6,695	
Telephone	2,761	
Utilities	917	
Miscellaneous	125	
SEWER		
Repairs and maintenance	44,730	
Consulting fees	625	
Supplies	13,481	
Utilities	7,862	
Depreciation	29,098	
Permits	2,746	
Sludge removal	12,976	
WATER		
Repairs and maintenance	16,854	
Consulting fees	3,380	
Utilities	12,358	
Depreciation	27,592	
Supplies	4,292	
Permits and testing	<u>2,114</u>	
Total operating expenses		<u>405,931</u>
Operating income		27,903
NON-OPERATING REVENUES		
Interest income		<u>30,846</u>
Net income before capital contributions		58,749
CAPITAL CONTRIBUTIONS		
Connection fees		<u>28,125</u>
Changes in net assets		86,874
NET ASSETS, JULY 1, 2005		<u>2,315,388</u>
NET ASSETS, JUNE 30, 2006		<u>\$ 2,402,262</u>

The notes are an integral part of the financial statements.

LOCH ALPINE SANITARY AUTHORITY  
OF WEBSTER AND SCIO TOWNSHIPS  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2006

CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES

Receipts from customers	\$ 453,148
Payments to vendors	<u>(348,455)</u>

Net cash from operating activities	\$ 104,693
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CASH FLOWS FROM (USED IN) CAPITAL AND RELATED  
FINANCING ACTIVITIES

Connection fees received	28,125
Additions to system	<u>(244,452)</u>

Net cash (used in) capital and related financing activities	(216,327)
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CASH FLOWS FROM INVESTING ACTIVITIES

Interest received from operating	<u>30,846</u>
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Net (decrease) in cash and cash equivalents	(80,788)
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CASH AND CASH EQUIVALENTS AT JULY 1, 2005	<u>1,074,955</u>
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CASH AND CASH EQUIVALENTS AT JUNE 30, 2006	<u><u>\$ 994,167</u></u>
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RECONCILIATION OF OPERATING INCOME  
TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Operating income	\$ 27,903
Adjustments to reconcile operating income (loss) to net cash provided by operating activities	
Depreciation expense	56,690
Changes in assets and liabilities	
Receivables, net	19,314
Accounts and other payables	<u>786</u>

Net cash provided by operating activities	<u><u>\$ 104,693</u></u>
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The notes are an integral part of the financial statements.

NOTES  
TO  
FINANCIAL  
STATEMENTS

LOCH ALPINE SANITARY AUTHORITY  
OF WEBSTER AND SCIO TOWNSHIPS  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 - DESCRIPTION OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF ENTITY - The Authority was formed by Webster and Scio Townships in May 1957 under Act No. 233 of the Public Acts of 1955. The purpose of the Authority is to acquire, own, extend, improve and operate a sewage disposal system and a water supply system.

A. SIGNIFICANT ACCOUNTING POLICIES

The accounts of the Authority are organized on the basis of a proprietary fund type, specifically an Enterprise Fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the Authority's assets, liabilities, net assets, revenues, and expenses. Enterprise funds account for activities:

1. That are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or
2. That are required by laws or regulations that the activity's costs of providing service, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar reviews; or
3. That the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

B. MEASUREMENT FOCUS

The financial activities of the Authority are accounted for on a flow of economic resources measurement focus, using the accrual basis of accounting. Under this method, all assets and liabilities associated with its operations are included on the statement of net assets; revenues are recorded when earned, and expenses are recorded when liabilities are incurred.

C. CASH AND CASH EQUIVALENTS

The Authority considers its deposits and restricted deposits and investments held with maturities of three months or less are considered to be cash equivalents.

D. CAPITAL ASSETS

Capital assets are stated at cost. Depreciation and amortization are computed using the straight-line method based on the estimated useful lives of the related assets, which range from 5 to 40 years for equipment and 5 to 40 years for buildings, structures, and improvements.

E. CONSTRUCTION-IN-PROGRESS

The costs of acquisition and construction of major plant and equipment is recorded as construction-in-progress. As facilities are accepted by the Authority and become operative, they are transferred to the facilities and improvements or machinery and equipment accounts and depreciated in accordance with the Authority's depreciation policies. Costs of construction projects that are discontinued are recorded as expense in the year in which the decision is made to discontinue such projects.



LOCH ALPINE SANITARY AUTHORITY  
OF WEBSTER AND SCIO TOWNSHIPS  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 - DESCRIPTION OF ENTITY AND SUMMARY OF  
SIGNIFICANT ACCOUNTING POLICIES - (continued)

F. CAPITALIZATION OF INTEREST

A portion of the interest cost incurred on capital projects is capitalized on assets that require a period of time for construction or to otherwise prepare them for their intended use. Such amounts are amortized over the useful lives of the assets.

G. PREMIUM AND ISSUANCE COSTS

Bond discount, premium, and issuance costs are amortized over the term of the related bonds. No bonds were outstanding or issued during the year ended June 30, 2006.

H. INCOME TAXES

As a government agency, the Authority is exempt from both federal income taxes and Michigan Single Business Tax.

NOTE 2 - MANAGEMENT'S ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3 - BUDGETARY DATA

The Authority follows these procedures in establishing its budgetary data:

1. The Authority prepares the annual operating budget and submits copies to the Webster and Scio Township Boards.
2. Public hearings are conducted to obtain Authority customers' comments.
3. The budget is legally adopted by approval of the members of the Authority's board.
4. Rate increases must be approved by the members of the Authority's board.

LOCH ALPINE SANITARY AUTHORITY  
OF WEBSTER AND SCIO TOWNSHIPS  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

**NOTE 4 - DEPOSITS WITH FINANCIAL INSTITUTIONS**

Michigan Compiled Laws, Section 129.91, authorizes the Authority to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Authority deposits are in accordance with statutory authority. The Authority maintains an imprest petty cash of \$100.

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the Authority's deposits are as follows:

<u>Deposits</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured	\$ 100,000	\$ 100,000
Uninsured and uncollateralized	<u>894,067</u>	<u>886,161</u>
Total deposits	<u>\$ 994,067</u>	<u>\$ 986,161</u>

LOCH ALPINE SANITARY AUTHORITY  
OF WEBSTER AND SCIO TOWNSHIPS  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

**NOTE 5 - STATEMENT OF CASH FLOWS**

Pursuant to the Governmental Accounting Standards Board (GASB) statement number 9, a statement of cash flows is presented. The purpose of the statement of cash flows is to explain the change in cash and cash equivalents during the year. Cash equivalents are defined as short-term, highly liquid investments with original maturities of three months or less. The direct method was utilized to present cash flows from operations. The following summarizes beginning and ending cash and cash equivalents:

	<u>JULY 1, 2005</u>	<u>JUNE 30, 2006</u>
Current assets		
Cash	\$ 836,535	\$ 918,486
Reserved current		
Cash and cash equivalents	<u>238,320</u>	<u>75,681</u>
Total cash and cash equivalents	<u>\$ 1,074,855</u>	<u>\$ 994,167</u>
Reserved cash at beginning of year		\$ 238,320
Current year capital acquisitions		(244,452)
Reserved utility billing		<u>81,813</u>
Reserved cash at end of year		<u>\$ 75,681</u>

**NOTE 6 - CAPITAL ASSETS**

The following is a schedule of capital asset activity for the year ended June 30, 2006:

	Balance 7/1/05	Additions	Deletions	Balance 6/30/06
Land	\$ 23,500	\$	\$	\$ 23,500
Office equipment	8,743	600		9,343
Equipment	157,733	36,664	338	194,059
Water and sewer system	914,611	196,150		1,110,761
Iron removal plant	<u>643,423</u>			<u>643,423</u>
Totals	<u>\$ 1,748,010</u>	<u>\$ 233,414</u>	<u>\$ 338</u>	<u>\$ 1,981,086</u>
ACCUMULATED DEPRECIATION				
Water and sewer system	<u>\$ 670,087</u>	<u>\$ 56,690</u>	<u>\$ 338</u>	<u>\$ 726,439</u>
CONSTRUCTION IN PROGRESS	<u>\$ 3,300</u>	<u>\$ 44,538</u>	<u>\$ 33,500</u>	<u>\$ 14,338</u>

LOCH ALPINE SANITARY AUTHORITY  
OF WEBSTER AND SCIO TOWNSHIPS  
NOTES OF FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 6 - CAPITAL ASSETS - (continued)

Depreciation is computed using the straight line method. Useful lives of the proprietary assets are as follows:

1. Buildings	25 years
2. Machinery and equipment	5 - 10 years
3. Office equipment	5 - 10 years
4. Services - water & sewer	5 - 10 years
5. Systems	5 - 10 years

There was no debt outstanding as of June 30, 2006 that was associated with any capital assets.

NOTE 7 - CONTINGENCIES

The Authority is involved in various legal actions arising in the normal course of business. In the opinion of management, such matters will not have a material effect upon the financial position of the Authority.

NOTE 8 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Authority maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Authority. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE 9 - SEWER BILLINGS

The system currently has 533 users that are billed quarterly for sewer service. Users are billed 7.95 per 1,000 gallons and \$39 quarterly for debt service/capital replacement.

LOCH ALPINE SANITARY AUTHORITY  
OF WEBSTER AND SCIO TOWNSHIPS  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 10 - SEGMENT INFORMATION

Selected financial information is as follows:

Operating revenue	\$ 443,834
Depreciation	56,690
Total assets	2,418,657
Total fund equity	2,402,262
Net change in net assets	86,874

SUPPLEMENTARY  
INFORMATION

LOCH ALPINE SANITARY AUTHORITY  
OF WEBSTER AND SCIO TOWNSHIPS  
SCHEDULE OF OPERATIONS - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
<b>REVENUES &amp; RECEIPTS</b>			
Water and sewer billings	\$ 412,500	\$ 431,569	\$ 19,069
Interest earned	25,000	30,846	5,846
Connection fees	9,375	28,125	18,750
Other charges for services	<u>945</u>	<u>2,265</u>	<u>1,320</u>
Total revenues and receipts	<u>\$ 447,820</u>	<u>\$ 492,805</u>	<u>\$ 44,985</u>
<b>EXPENSES AND DISBURSEMENTS</b>			
<b>GENERAL</b>			
Management services	\$ 123,000	\$ 123,000	\$
Administration expenses	14,000	13,413	587
Office supplies	2,500	1,874	626
Printing and advertising	800	595	205
Legal fees	7,500	6,544	956
Postage and freight	1,400	992	408
Audit fees	5,100	5,075	25
Consulting fees	7,000	14,055	(7,055)
Accounting services	20,000	15,795	4,205
Insurance	38,000	35,982	2,018
Repairs and maintenance	8,500	6,695	1,805
Telephone	3,000	2,761	239
Utilities	1,200	917	283
Miscellaneous	3,200	125	3,075
<b>SEWER</b>			
Repairs and maintenance	50,000	44,730	5,270
Consulting fees	5,000	625	4,375
Supplies	18,000	13,481	4,519
Utilities	9,000	7,862	1,138
Depreciation	35,000	29,098	5,902
Miscellaneous	3,000		3,000
Permits	4,000	2,746	1,254
Sludge removal	10,000	12,976	(2,976)
<b>WATER</b>			
Repairs and maintenance	25,000	16,854	8,146
Consultant fees	5,000	3,380	1,620
Utilities	13,000	12,358	642
Depreciation	35,000	27,592	7,408
Supplies	6,000	4,292	1,708
Permits and testing	<u>7,000</u>	<u>2,114</u>	<u>4,886</u>
Total expenses and disbursements	<u>\$ 460,200</u>	<u>\$ 405,931</u>	<u>\$ 54,269</u>

This schedule is prepared on a budgetary basis for the operating accounts of the enterprise fund and as such does not present the results of operations on the basis of generally accepted accounting principles but is presented for supplemental information.

LOCH ALPINE SANITARY AUTHORITY OF  
WEBSTER AND SCIO TOWNSHIPS

COMMENTS  
AND  
RECOMMENDATIONS

FOR THE YEAR ENDED JUNE 30, 2006



October 30, 2006

Board of Trustees  
Loch Alpine Sanitary Authority of Webster and Scio Townships  
827 North Zeeb Road  
Ann Arbor, Michigan 48103

Honorable Board of Trustees:

In planning and performing our audit of the financial statements of Loch Alpine Sanitary Authority of Webster and Scio Townships for the year ended June 30, 2006, we considered the Authority's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control.

However, during our audit we became aware of instances in which there are opportunities to strengthen internal controls and operating efficiency. These instances are as follows:

1. COMMENT

There is a lack of segregation of duties in the accounting system. One person does the receipting, depositing, disbursing and posting of all original books of entry.

RECOMMENDATION

The Authority should consider the cost/benefit ratio of segregating duties.

2. COMMENT

Several deposits were unchanged from the year before.

RECOMMENDATION

This should be researched and money refunded to customers where applicable.

This letter does not affect our report dated October 30, 2006 on the financial statements of Loch Alpine Sanitary Authority of Webster and Scio Townships.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and recommendations with various Authority personnel, and we will be pleased to discuss it in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of the Board of Trustees, and management of Loch Alpine Sanitary Authority of Webster and Scio Townships and is not intended to be and should not be used by anyone other than the specified parties.

*Pfeffer, Hanniford & Palka, P.C.*

PFEFFER, HANNIFORD & PALKA  
Certified Public Accountants